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Governor's Conference on Value-Added Food Processing
February 12-13, 2001

Caucus Notes



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INTRODUCTION TO CAUCUS NOTES

The intent of the Governor's Conference on Value-Added Food Processing was threefold:

1. To facilitate networking with policymakers and other producers.
2. To offer speakers and information on current industry concerns to help educate producers.
3. To gain industry perspectives and recommendations on key problems.

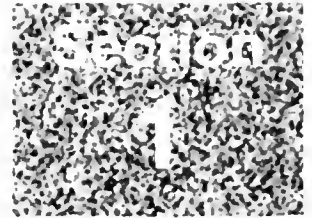
Coming together in Helena and participating in seminars accomplished all three objectives of the conference, the most important of which was soliciting the concerns and ideas of the industry. Participants throughout two days of facilitated caucus groups provided this information.

On February 12, participants were divided randomly into color-coded groups. From the information provided during the first caucus sessions, eight subjects were determined as the topics for the February 13 discussions. Those topics were as follows:

- Access to Capital
- Business Environment
- Business Training and Development
- Infrastructure
- Marketing
- Research and Development
- Transportation
- Workforce Investment

The notes are not divided according to the color groups or the caucus groups. Instead, the information generated from each group is encapsulated by topic. For instance the Blue Group discussed accessing capital, a summary of the comments from that discussion will be found in the Access to Capital notes. Further, if in the Business Environment Caucus, a discussion about research and development ensued, the summarized contents of that tangent will be found in the Research & Development notes.

Director of Agriculture, Ralph Peck, discussed the topics addressed in the notes with Governor Martz. Together, they determined a course of action that ensures that the suggestions of the caucuses are addressed. That implementation strategy will be found following the notes.



Business Environment

The following parameters were defined by participants as the role of state government:

The State should provide an environment where businesses can thrive. Industry dollars will only flow through communities if businesses are profitable.

The State needs to adopt a "pro-business" model that encourages growth and expansion. This model should be based on a study of the best practices from other states and countries.

The State should consider the work of Value-Added Food Processors as a model for developing other sectors of the economy.

The role of the State is not to create specific businesses. Supply and demand economics dictate business creation.

Based on these understandings of the role the State plays in business development and growth, the several issues were identified and will be addressed in the following pages.

Government Resources & Regulations

CONSTRAINTS IDENTIFIED AS RELATED TO GOVERNMENT RESOURCES

Government resources need to be consolidated or streamlined. The lack of consolidation of information and resources keeps federal agencies, state agencies, and businesses fragmented. The result is "reinventing the wheel".

Information and resources at state and university levels need to be coordinated.

Limited resources – there are few government specialists who can understand business issues and provide relevant business assistance. State employees who have contact with producers need to be trained and educated about producer issues and resources available through state and federal agencies.

It is difficult to access information and fundamental data that is user friendly and relevant to value-added processors. Information is available today, but the way it is presented is overwhelming and requires contacting several agencies.

Improvements need to be made in providing producers access to information regarding start-ups and business expansion.

State and Federal programs could be made more complimentary and could be simplified.

State agencies need to improve their attitude toward customer service regarding producer contact and assistance.

To encourage economic growth, state agencies need to be proactive rather than reactive.

CONSTRAINTS IDENTIFIED AS RELATED TO REGULATION

State and Federal regulations are not being coordinated, enforced uniformly or consistently on like products. There is an apparent lack of inter-agency communication of information.

Regulations in Montana hamper growth of the meat processing industry because the state requirements differ from the USDA regulations, forcing plants to restructure in order to ship beyond Montana.

Misinterpretation – even though statewide rules and regulations exist, it is up to the state sanitation person to 'interpret' the rules. What works in one county might not work in a neighboring county.

Excessive regulations prohibit growth.

While responsible business management is necessary, excessive environmental regulations injure costs of value-added products.

- In the meat industry, environmental regulations are becoming an issue because the associated businesses are not available for waste products.
- We cannot increase the production of agriculture with the current environmental standards. More ground is going into CRP while more regulations prohibit practices on existing croplands.

Regulation information

- Information about regulations is hard to find. There is not a "one stop shop" for what permits/licenses are required for each business category.
- Regulatory information needs to be coordinated between agencies and levels of government.
- There is no "champion" of business --> one person who works with a business from start to finish to get all permits, etc.

Workers' Compensation is expensive!

PROPOSED SOLUTIONS FOR GOVERNMENT RESOURCE & REGULATION CONSTRAINTS

1. Leverage the business development and regulatory budgets of existing agencies to create a Business Start-up and Expansion Office within state government. That office should have one phone number that processors can call. It is up to the agency to determine to which employee the call is assigned.
2. When a business calls in, the "account" is assigned to one employee. That employee is responsible for determining licensing requirements, regulations, and relevant assistance for the company, and for working with the company to apply for funding and licensing, and to access resources. The information includes city, county, state, and federal programs and regulations.
3. Further increase access to information by creating a "Doing Business in Montana" website.
 - The website should be searchable by the type of business and by location.
 - The website should include all relevant licensing and regulatory information.
 - The website should list federal, state, county, and city agencies involved with business expansion and development.
 - The website would prompt for companies to complete a questionnaire and an initial application.
 - The information is then sent back to the Business Start-up and Expansion office and the company is assigned to an employee.
4. Once information is received from a company, the state "advocate" is responsible for forwarding the initial application to the relevant state agencies. If it is an application for licensing, the advocate sends the application to all agencies involved. The business then pays ONE fee for licensing and the advocate disperses the funds to the appropriate agencies.
5. The state advocate sends an information packet to the company with relevant programs, regulations, and information on available financing options.
6. The Business Start-up and Expansion office must have standards for responses to producer inquiries, including confirmation of the receipt of inquiry, a timeframe for responses, and contact information for each business inquiry.
7. The state must ensure sufficient infrastructure and qualified employees to make this process effective.
8. Further, the Business Start-up and Expansion advocate is responsible for assisting businesses with inconsistencies in regulations. If a business feels that the regulations they are being asked to comply with are not consistent with state standards, they contact their advocate. That advocate is then responsible for following up with the regulatory agency.

9. The Business Start-up and Expansion office should conduct quarterly seminars concerning the various programs available to businesses and any changes to existing requirements.
10. The Business Start-up and Expansion office is responsible for establishing an attitude of assistance that provides dedicated resources and solutions rather than consequences for non-compliance.

Tax Structure

CONSTRAINTS IDENTIFIED AS RELATED TO TAX STRUCTURE

The current Montana tax structure discriminates against business through dependence on income and property taxes to support the state.

Business do not know about many tax incentives.

Tax and business growth incentives support large growth. For example, it is considered better to create 400 jobs than it is to add 1 job – without regard to pay scales and the quality of the work. For small businesses, large contracts are usually not obtainable. Supporting small contracts may allow for many varieties of small growth as opposed to one contract that only occurs every few years.

Montana is not “business friendly”. We know that businesses struggle to relocate and survive here and that some of the struggle is related to taxation. We need to define “business friendly” and move toward developing a growth environment.

We need to examine best practices of other states.

There is a high fixed cost to run the government. What is our return on investment?

Tax structures need to be consistent.

Property appraisals for both new and old facilities need to be examined.

Tax reductions that assist business growth include property, equipment, inventory, and workers' compensation.

Tax structure needs to increase retained earnings for producers.

Approach the possibility of a sales tax, but only as a full replacement of another tax.

PROPOSED SOLUTION FOR TAX STRUCTURE CONSTRAINTS

Assign a taskforce that evaluates the best practices of other states and develops a proposal for the Governor.

Community Environments

CONSTRAINTS IDENTIFIED AS RELATED TO COMMUNITY ENVIRONMENTS

In order to thrive, businesses need community support of "Outside the Box" issues.

"Prosperity isn't politically correct." Communities do not seem to understand the positive impacts of having successful processing businesses in the local economy.

Communities do not have consensus on economic development visions. Questions that arise due to the lack of common vision include:

- Should we be happy with the existing state of our local economy?
- We seem to have one foot on the gas and one foot on the brake. We want to keep the state nice, but we also want to promote business. How do we walk that line?
- What is the balance between ruining the state and starving to death?
- Do rural values and quality of life necessarily conflict with business development?

Out-of-state influences seem to dictate economic growth policies.

Small town politics → Strong Chamber members discourage development of manufacturing companies to keep wages down.

Communities are attached to "the past" of economies supported by farms and ranches. Change to a more manufacturing-based economy is met with a resistance to change.

Lack of help for local startups/ideas – the community could help to support those efforts. For instance, if a new dairy starts up, the community can help to recruit additional milkers who sell to the dairy.

PROPOSED SOLUTIONS FOR COMMUNITY ENVIRONMENT CONSTRAINTS

Improve education to foster a cultural environment that supports success.

- Provide education regarding the trickle-down affect of successful agricultural business environments in Montana.
- Educate communities on how developing agri-processing businesses helps to reduce urbanization of farmlands.

Commodity Producer Support

CONSTRAINTS IDENTIFIED AS RELATED TO COMMODITY PRODUCER SUPPORT

Commodity producers want value, but still think in terms of commodities. There does not seem to be an understanding of what value-added can do.

Commodity associations are not addressing divisions in producer goals and are not being proactive with value-added. The commodity associations are devoted to thinking and selling commodities, not value-added.

Competition exists between grain and meat producers. To fully develop value-added, we need to encourage cooperation.

We are not training commodity growers on how to behave like businesses, think in terms of value, or how to "think outside the box." We are not spreading the message that value-added is the key to survival in today's environment. Commodity producers as well as value-added processors have a limited view of the world, which hampers partnerships and innovation.

PROPOSED SOLUTIONS FOR COMMODITY PRODUCER SUPPORT

We need to change the agricultural commodity mind set in order to develop value-added businesses.

- Education including feasibility analysis is required. Commodity producers do not recognize value-added processing as agriculture.
- We need to educate producer service providers about the benefits of encouraging value-added.

Industry Networks

CONSTRAINTS IDENTIFIED AS RELATED TO INDUSTRY NETWORKS

There is no forum that supports collaboration on:

- Product promotion
- Discussing manufacturing issues and problems
- Shipping
- Building and expanding business vs. utilizing existing assets.
- Developing the industry "grass roots" movement to the point that the industry is self-sustaining.
- Sharing transportation and brokerage
- Tapping downstream expertise (use each other's experts instead of doing everything as individuals)
- Joining forces to behave like a large business as opposed to many small entities.

PROPOSED FUNCTIONS OF AN INDUSTRY NETWORK

Establish a resource library with contacts and information for people who are looking into starting new businesses.

Examining how to improve the value-added processing sector of the Montana economy.

Recruit and leverage industry experts to assist processors in growth and development.

Many industry experts are not being utilized.

Network with the existing associations and alter their focus to include value-added processing. Increase the leverage of the network through existing associations.

Utilize collaboration to leverage existing facilities and assets.

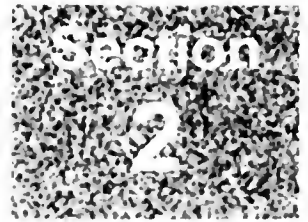
Lobbying and interface with legislators on issues such as tax structure.

Facilitate cost sharing through collaboration. For instance, Workers' Compensation safety courses could be offered to many companies at once to reduce costs.

Overall Recommendation

Based on the issues and concerns identified by the industry, the Business Environment Caucus recommends that Governor Martz appoint a task force to address the following issues:

1. Forming an industry network. Structure, recruitment, etc.
2. Make recommendations concerning tax structure based on best practices of other states.
3. Make recommendations concerning how to educate communities and commodity producers about the benefits of agricultural processing.
4. Make recommendations on developing a Business Start-up and Development Office of the state government.



Business Training & Development

State Support for Business Development

CONSTRAINTS IDENTIFIED IN REGARD TO STATE SUPPORT FOR BUSINESS DEVELOPMENT

Montana lacks state and local planning for regional issues. Because the state is so vast, the economic development vision may not be the same in western Montana as it is in eastern Montana.

There is not enough economic development assistance for feasibility work, business development, marketing, or market research, which slows our progress to the point that we go broke before we succeed.

We lack adequate state support in technical assistance, funding, and tax incentives. We are behind in our learning curve and have been complacent when it comes to pushing our economic development process.

There is no centralized location for information on developing a business. Companies do not know what is available to them for business planning and financial assistance. Instead of tapping into existing resources, businesses get overwhelmed by the paperwork and try to do things on their own.

State resources compete for funding and therefore do not effectively advocate all of the programs available. There is no help to get from point A to B (for instance if you work with one department on financing, there is no assistance to get from financing a marketing plan to working with another department to implement and develop the plan.)

There is a lack of planned growth by region. Rather than focusing on one or two businesses in a region and recruiting growers, etc., to support the venture, resources are just randomly allocated.

Start-up paperwork needs reworking. Businesses need one phone number to get information regarding all of the paperwork needed. Paperwork is confusing and overwhelming at the national, state, and community level.

The state needs to identify what the core values are that we need to achieve. An example of how to identify the needs of the state can be found in Nebraska where an inventory of producer and processor needs was conducted to see what industry wants and needs.

How well versed are state employees to answer resource and business development questions? Do they understand private business? Are they aware of all of the business assistance programs?

The state needs to improve existing businesses rather than going out and starting new – GROWTH VS. RECRUIT – improve the business environment, but don't forget about the guys already present.

PROPOSED SOLUTIONS TO STATE SUPPORT FOR BUSINESS DEVELOPMENT CONSTRAINTS

Provide a consolidated and coordinated source of business development assistance and information. Establish a central toll-free number for information assistance and resources. Base the center on best practices of other states.

Assess the available resources, monetary and non-monetary, to develop an ideal "help program" and determine how to access those resources to make things happen. Ensure that assistance providers are knowledgeable of industry capacity, status, abilities and potential.

Develop an educational material packet to help inform a producer on the steps involved in becoming a processor including contact information. For industries where information is available, provide a feasibility analysis for start-ups.

Inventory existing sources of business development assistance. Provide an online list of resource providers and information available in Montana.

Develop a two-tiered training and business development program.

Tier one focuses on training and developing businesses.

Tier two focuses on researching business trends and developing new training programs.

Business Coordination & Cooperation

CONSTRAINTS IDENTIFIED IN REGARD TO BUSINESS COORDINATION AND COOPERATION

There is a lack of collective industry vision as to marketing Montana and developing business here. Businesses are at odds over what "ought" to happen in developing the economy. There is no industry "mission statement". The result is fragmentation and a lack of cooperation and collaboration.

The lack of common vision contributes to many constraints including:

- Jealousy over allocation of resources
- Competition for limited resources including state agency assistance, time for legislative consideration of issues, etc.
- We are not capturing value or promoting image of unique products.

Businesses do not understand the benefits of collaboration.

We need to integrate all levels of value-added and leverage existing assets and businesses.

Businesses are not looking for partnerships (public or private). Entities operate in isolation without considering the good of the whole.

Companies need to overcome the attitude of competition versus collaboration – both in product competition and geographic competition for resources. We cannot do the same thing in eastern Montana that we do in western Montana, but if we can overcome the idea of competing for resources and tie that to an economic development mission, we could achieve more.

Businesses are not educated on how to grow “responsibly”.

We struggle to overcome our heritage of “what we have always done” as state agencies, manufacturers, and agricultural producers.

PROPOSED SOLUTIONS TO BUSINESS COORDINATION AND COLLABORATION CONSTRAINTS

Work to develop a teamwork approach to managing businesses. Leverage strengths of each business to build a stronger whole.

Develop a value-driven vision that is economically and holistically beneficial to Montana.

Develop an industry-driven resource provider or association focusing on creating strategic alliances. Initiate this process by completing an inventory of our industries capacities, abilities, and growth potentials.

Work to develop incubators across the state that provide a place for businesses to come together and help each other out. Firms can share equipment, bookkeeping, sales, etc., and help each other out with expenses.

Business Planning

CONSTRAINTS IDENTIFIED IN REGARD TO BUSINESS PLANNING

Businesses lack knowledge of how to build a plan that will enable them to be successful and grow.

Businesses do not have training on how to achieve the gross margin they need to make a profit without pricing their products out of the market.

Businesses do not plan their production runs in collaboration with other processors. Therefore, they cannot achieve sustainable volume and plant capacity to justify their assets.

Most value-added food processors are not manufacturers by trade. They do not have exposure or training required to develop manufacturing strategies or plans.

Businesses do not understand retail markets and how they relate to business planning. They do not understand the need for trademarks or how to get them. Further, they do not know how to interrelate a business plan with a marketing strategy. Companies may have all of the information they need, but do not know how to meld it into an effective plan.

Small manufacturers have a lack of marketing knowledge. There is also a lack of knowledge concerning the business marketing needs, what resources are available or who to contact.

Statewide, there is a lack of expertise in regard to business development and manufacturing management.

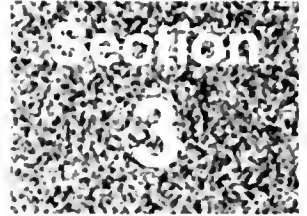
Montana companies are small and owners are typically asked to wear all hats – from manufacturing to management, without the ability to concentrate on core competencies.

PROPOSED SOLUTIONS TO BUSINESS PLANNING CONSTRAINTS

Inventory the expertise and technology in the state and determine where we have strengths that need to be leveraged.

Recruit resource people for specific areas that all firms are utilizing – CPA's, marketing experts, etc.

Provide training courses for manufacturers (NxLevel was suggested). Make these courses into an on-going program.



Access to Capital

Preparing for Financing

CONSTRAINTS IDENTIFIED AS RELATED TO PREPARING FOR FINANCING

Montana companies don't know how to position themselves to attract financial capital.

Businesses often do not know what to include in business plans and outlines for their operations, which demonstrate that they have really thought the venture through and understand all of the risks involved.

There are no resources within the state who can look over a business plan prior to taking it to a lender.

Borrowers need to understand existing banking industry issues and the structure of banks.

PROPOSED SOLUTIONS TO PREPARING FOR FINANCING

Work with businesses to increase the awareness of bank practices. Conduct seminars that explain how and why banking practices came into existence. Then educate business owners on how to communicate effectively with banks and how to position themselves to attract capital.

It would be useful to the person receiving the loan to have someone available to review the plan for its merit as a financial road map of the business's intentions as well as honing it for lender approval.

State and Federal Funding Programs

CONSTRAINTS IDENTIFIED AS RELATED TO STATE AND FEDERAL PROGRAMS

There is a lack of financing and development dollars in the state for business start-up and expansion.

Financing for feasibility studies and economic analysis of business plans is limited and dollar amounts are too small to achieve a complete market research report. The Growth Through Agriculture Program is one of the few options available for funding market research. It is a good program, but \$50,000 is not enough to do proper research.

- Businesses do not know where to go for government funds and have trouble getting support of banks.

- Accessing government loan and grant dollars is difficult and time consuming and requires a full-time staff person to find and apply for funds.
- There is a lack of awareness of resources available.

There are insufficient regional resources to nurture and finance value-added business.

Associations or cooperatives could work to address many problems faced by Montana companies. However, initiating an association requires time and financial investment – two things companies don't have a lot of.

State employees don't have practical business experience. They can walk you through the processes, but they do not understand the workings of private ventures.

Negotiating interest rates and terms with banks is difficult. SBA support does not make this process any easier – SBA takes a lot of time and returns very little.

Currently, the Board of Investments follows the practices of banks, making it easier to apply for financing through a reliable lender.

PROPOSED IMPROVEMENTS TO STATE AND FEDERAL PROGRAMS

The Montana Board of Investments needs to increase their flexibility and reduce barriers.

The state should create a clearinghouse of network investors with Montana businesses.

Encourage the legislature to use a portion of the Coal Tax Fund to lend back to Montana businesses, only 4% was used for value-added businesses within our state. Utilize it as a hedge against what banks perceive to be high-risk ventures (provided that venture has a solid business plan).

Increase access to low-interest loans for businesses in start-up phase as well as funds for expansion and diversifying a business.

Increase funding for feasibility studies and business plan development.

Increase awareness of state offered programs by providing one number businesses can call for assistance. Increase inter-agency cooperation.

Accessing Private Sector Funds

CONSTRAINTS IDENTIFIED IN REGARD TO ACCESSING PRIVATE SECTOR FUNDS

Small manufacturers have insufficient funds to pay for marketing and for technical assistance.

- With the risk of investment increasing, there is a greater need for technical assistance in business and financial planning.
- Business expansions require significant investment.

There is no direct support of the value added industry.

- We do not channel check-off dollars, etc., to promote Montana specific products.

- Montana does not have the mega-conglomerates in our state to support agriculture. We do not necessarily want them, but we need to find other avenues to generate financial support for our businesses.

Companies have a lack of working capital. This makes conventional lending options hard to access.

Banking Industry

CONSTRAINTS IDENTIFIED IN REGARD TO THE BANKING INDUSTRY

Increased access to low-interest loans for businesses in the start-up phase is needed, as well as start-up funds for expansion and diversifying a business.

Out-of-state corporate banks seek strong return on investment. Montana has many small businesses and cannot provide the return many corporate banks desire.

Banks do not understand the value of agri-processing businesses. They are leery to lend due to the equity positions of small businesses, high failure rates of start-ups, and they do not understand the value of the businesses on local communities. Additionally, centralization of banks combined with increased regulation causes them to be less inclined to support local businesses.

Once a business is "in" it is not hard to qualify for additional loans for remodeling, etc. The problem is getting a foot in the door. How can we help to reduce the initial risk portfolio for innovative producers?

Unlike other parts of the nation, Montana banks tend to lend to lower risk businesses. With the decreasing numbers of Montana banks, there is an increasing trend toward risk adverse attitudes of banks. This creates a need to develop capital for businesses that banks consider too risky, but that demonstrate a solid business plan and have a strong potential to grow the value-added sector of Montana.

Funding to promote unique products is difficult to access.

Lending sources do not recognize Montana products as "niche" products or as something unique to the market.

Banks do not understand the connection between value-added products and agriculture. Therefore, they do not understand the potential economic impact of investing.

Banks will not do a loan for both agricultural and commercial activities. Currently, businesses typically start out with agricultural financing and then move into commercial activities such as producing and marketing the value-added agricultural product.

PROPOSED SOLUTIONS TO ADDRESSING THE BANKING INDUSTRY

Partner up with a bank and other development corporations to offer medium to long term financing with reasonable interest rates for companies with viable, well-researched business plans.

Make it easy to find and apply for financing.

Develop an innovative structure for the loan. Match uses and sources—structure loans to meet business needs-flexibility.

Reform capital/banking industry attitudes toward investing in Montana value-added businesses. Banks are friendly to businesses that are already successful. We need to market the success stories of businesses that are generating a return on investment. We need to demonstrate the potential of value-added agriculture.

Develop partnerships between the smaller in-state banks that are willing to take the risks, and the out-of-state banks with more capital to lend. This will increase bank lending. To make partnership an attractive option for banks, also include partnerships with other development corporations.

Develop a Montana Board of Investments preferred lender program that lists bank that are willing to lend for agricultural and commercial purposes. Provide incentives to those banks to continue investing in Montana through tax incentives or other means.

Venture Capital

CONSTRAINTS IDENTIFIED IN REGARD TO VENTURE CAPITAL

We cannot encourage venture capital unless we develop and demonstrate Montana's commitment to quality and image.

- Montana is not attracting equity capital from out of state.
- There is insufficient venture capital available in Montana. We need to raise capital in our state by leveraging the monies available to us. We need to reinvest in our infrastructure and existing businesses.

PROPOSED SOLUTIONS TO VENTURE CAPITAL CONSTRAINTS

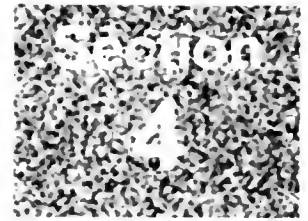
Improve perception of Montana businesses to out-of-state financial sources.

- Identify Montana companies that are success stories and market their story.

Provide incentives to purchase shares of Montana companies

- Market Montana as place to do business, invest in and to buy Montana products.
- Provide tax incentives to banks and capital companies to invest in Montana businesses, plus support HB 49.

Create the perception that Montana is friendly to business and to investment. This needs to be done not only through marketing successful business stories, but also through tax incentives.



Transportation

Accessing Affordable Freight

CONSTRAINTS IDENTIFIED IN REGARD TO ACCESSING AFFORDABLE FREIGHT

Transportation costs for Montana processors are high due to several factors:

- Companies do not know where to go to access good freight rates.
- Small volume producers cannot leverage shipments to achieve better rates.
- Processors do not have time to research shipping patterns and coordinate their shipment needs with existing truck routes.
- We, as an industry, are not making certain that back hauls are utilized or that shipments are coordinated. We may all be buying boxes out of Spokane, but we are not working together to get all of our boxes on the same truck and cut costs.

Montana is at a freight disadvantage due to location. We must travel a long distance in order to access populated markets.

Consolidation in the retail grocery market is causing many businesses to ship to Salt Lake City or Seattle in order to get their products into store chains.

PROPOSED SOLUTIONS TO ACCESSING AFFORDABLE FREIGHT CONSTRAINTS

Develop a centralized clearinghouse for coordinating shipments in and out of Montana. This center should track purchases of raw materials from out of state, like shipments to warehouses out of state, and in-state shipments.

Once the shipment patterns are established, companies can work together to coordinate efforts and leverage total volume to negotiate better freight rates.

We cannot use the costs of transportation due to location as an excuse. Alberta is similarly located geographically, and yet is known for effective, low-cost transportation. We need to analyze their systems and determine methods of implementing their best practices in Montana.

We cannot change the requirements of grocery stores, but we can begin to consolidate shipments of products that are headed to the grocery store warehouses. This process could be aided by an association.

Warehousing and Logistical Planning

CONSTRAINTS IDENTIFIED IN REGARD TO WAREHOUSING AND LOGISTICAL PLANNING

There does not seem to be a central hub for the warehousing and distribution of Montana food products.

Because everyone assumes that warehouse space and distribution functions do not exist in Montana, we continue to build new infrastructure instead of utilizing existing shipping routes and warehouses.

Montana companies do not understand the role of the Port Authorities or how they can help with transportation issues.

We need affordable container sites.

Communities with only two-lane road access have a disadvantage for attracting out-of-state companies. While Montanans are accustomed to traveling for long distances on two-lane roads, out-of-state companies are accustomed to shorter commuting time between communities and are not likely to develop in these areas.

We know distribution and warehousing is occurring in Montana. Trucks run in and out of the state in regular shipments every day. However, we do not understand the system or know how to best tap into it.

PROPOSED SOLUTIONS TO WAREHOUSING AND LOGISTICAL PLANNING CONSTRAINTS

Utilize the above-mentioned study of shipping patterns and trends to determine where current warehousing is taking place.

Inventory existing warehouse sites and logistical services in the state.

Work with an association to coordinate shipping patterns and logistical planning.

Proposed Action Plan for Addressing Transportation Issues

Through an association or cooperative, research the current transportation systems and shipping patterns.

Network with processors to consolidate shipments in warehouses and then leverage increased volumes to negotiate freight rates.

Provide a logistical coordinator who can assist companies with pooling freight options and getting quick access to freight rates.

Inventory the strengths of companies who currently ship products on a regular basis. Leverage their expertise, assets, and experience to strengthen the whole of Montana processors.

Develop an electronic list serve of transportation activities (who is taking what to where and when).

Examine the option of providing a call center in conjunction with a distribution/warehouse coordinator. Perhaps companies could ship their products to a Montana "hub". All shipments could be coordinated by someone else to save processor time and energy.

Utilize collective energy to pressure legislators to improve Montana roads and to keep fuel costs down.

The goals of the collaborative freight efforts are as follows:

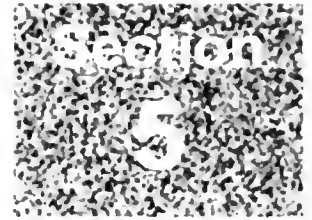
Efficient – coordination between agencies and producers to assist with providing the most efficient and economical distribution of Montana goods in and out of Montana. Consolidation of various transportation options would lower costs.

Affordable – Coordinate efforts/partnerships within industry to cut costs to everyone involved.

Accessible – Since Montana is a vast state, we need to ensure statewide coverage and distribution to available and to ensure information regarding Montana's products and their distribution is provided in a format that is user friendly and easily obtained.

In-state coordination – Need to ensure Montana products and their distribution is coordinated not only in state but also out of state. Need to form an Association/Regional Distribution Centers throughout Montana that can not only warehouse product until its distribution but can also become the dispatcher for all types of haulers (long, short, refrigerated, etc.)

Reliable – Need to ensure a reliable distribution system is in place due to Montana's unpredictable weather conditions and vast highways to the extent of implementing a backup emergency system to ensure distribution throughout Montana.



Infrastructure

Facilities

CONSTRAINTS IDENTIFIED IN REGARD TO FACILITIES

There is a lack of processing infrastructure in Montana:

There are few co-packing facilities or test kitchens which make testing new products difficult.

Montana lacks packing, rendering, fresh pack, and other processing facilities. Facilities that are available are often not current or certified facilities.

Recruiting new businesses and supporting the growth of existing processing businesses requires in-state processing facilities that allow companies to mitigate risks while testing new products.

Infrastructure to produce packaging materials and supplies is not available. Most glass jars, boxes, and some food ingredients have to be brought in from out of state.

Because processors are not aware of existing assets, current infrastructure is not leveraged and valuable business dollars go toward building new facilities.

There is a lack of producer and processor coordination and/or cooperation to support efficient facilities. Businesses do not coordinate utilizing facilities, distribution, resource people, supply shipments, etc., thus, cost efficiencies are lost.

There is a lack of labor force to support processing facilities.

Many existing facilities are commodity focused.

For the meat industry, constraints are multi-fold in that there is not only a lack of packing facilities, but there is a significant lack of rendering facilities.

Appraisals on facilities make them a liability for processors. Because food-processing assets are so specialized the appraisal value is worth only cents on the dollar.

Before developing new facilities, we need to inventory what is already in the state and only requires minimal updating to make an efficient plant.

PROPOSED SOLUTIONS TO FACILITIES CONSTRAINTS

Encourage public and private partnerships to develop and support processing facilities. Utilize the private sector to manage and own the facilities while the public sector works to recruit volume and educate commodity producers.

Develop community-owned facilities and state-owned facilities (examples of state-owned facilities include the Nebraska Food Center and the Alberta Food Processing Centre.) These facilities are publicly-owned, but private ventures pay fees for use.

Provide incentives to businesses that work with community facilities as opposed to businesses that utilize state funds to develop an additional private business without first ramping up through a facility. Provide an incentive for new processors to work in an "incubator", develop a solid business plan, determine a marketing strategy, and then build; versus building and then scrambling to make the business succeed.

Energy

CONSTRAINTS IDENTIFIED IN REGARD TO ENERGY

Issues related to energy include:

- Increasing cost of energy – if energy costs increase as expected, most processing businesses will not be able to afford to operate.
- Out of state competition for our energy resources.
- There are no incentives to use less energy.
- Increased energy prices drive up costs of production. These costs cannot be passed to the consumer as pricing must be competitive.

High-energy costs and a source of energy are a concern of many businesses and add to the inability to attract the processors / manufacturers.

If energy prices escalate and small businesses are forced to close, other businesses will be affected and trickle throughout the Montana economy.

There is a lack of supplier competition in providing power sources.

Value-added businesses do not understand the "real" issues that underly the power crisis. The lack of understanding hampers their ability to hedge or seek alternatives.

There are no incentives for businesses to develop alternative energy sources.

Our power generation plants do not have any incentive to support Montana businesses. Therefore, out-of-state users can buy us out of a power position. We do not have a developed alternative such as wind, coal, fuel cells, or anaerobic generation.

PROPOSED SOLUTIONS TO ENERGY CONSTRAINTS

Develop a major facility ethanol/processing plant in Montana.

Produce energy from by products of value-added processing.

Make certain that Montana has adequate power before power is sold out of state. As a state with enough resources to meet current energy demands and grow our energy surplus, we cannot allow our industries to be without sufficient power.

Promote energy conservation.

Provide a mechanism for Montanans to have a voice on how rates are structured and set in-state. The out-of-state demand is high enough that once capped in-state needs are met, market values can determine the price for exported energy.

Provide an incentive for companies that supplement their energy needs with alternative sources – solar, wind, gravity fed water systems on farms, generators in refineries, etc.

Utilize federal grants and other programs to develop several smaller plants as opposed to a mega-provider that could develop a power monopoly.

Develop a program for educating people that Montanans are good stewards of the land and that hydro-power and other energy generation plants can be developed in a responsible manner.

Why isn't coal on the list of energy alternatives? We can now process coal in a clean manner. It is a great asset to the state and we should advocate it as an alternative to hydro-power.

Develop three plans for energy – alternatives and contingency plans.

Short-term plan – present to June 2002

Intermediate term plan – 5 years

Long-term plan – beyond 5 years

Industry needs to take the initiative to educate communities, suppliers, and customers as to the value that their business brings to the state and then to drive home in importance of affordable energy in maintaining that business.

Technology

CONSTRAINTS IDENTIFIED IN REGARD TO TECHNOLOGY

There is a lack of high-speed Internet access in Montana. This constraint inhibits access to information and e-commerce activities.

There is a need for a common network infrastructure for businesses to utilize for e-commerce activities. Increase access to the Information Highway.

The Montana infrastructure for communications prohibits growth of businesses.

Information technology and support for those services are not easy to access. (For example, cellular phones are providing consumers in mainland China information about markets and

access to new business opportunities without excessive roaming charges, etc. In Montana, there are large pockets without any cell service.)

The costs to develop and market effective websites make them prohibitive to many small businesses.

Unless we are internet capable by 2005, Montana will be unable to compete in the world market.

Montana companies are typically too small in size to be networked into larger entities who are developing new ways to utilize e-commerce.

PROPOSED SOLUTIONS TO TECHNOLOGY CONSTRAINTS

Once a wireless I/T system is developed, bring state and local government into the structure to increase the volume on the system and lower per unit costs.

Increase availability of systems such as Met Net.

Develop industry partnerships for developing and acquiring technology to reduce costs.

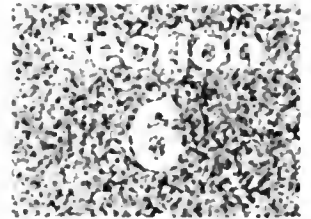
Unless we are internet capable by 2005, Montana will be unable to compete in the world market. The state needs to set a time as to when the state will be "high speed" and then take a proactive approach to making it happen.

Montana needs to provide incentives to private tech businesses to get systems in the state. Currently, technology is being implemented all around us.

We need more education from the industry as to what systems are available to us.

Montana needs to encourage wireless connections.

Workforce Investment



CONSTRAINTS IDENTIFIED IN REGARD TO WORKFORCE INVESTMENT

Qualified (educated and skilled) workers in local communities are hard to find.

The inability to motivate workers to learn and take pride in their performance is a barrier to growing business.

There are no tax incentives or monies available for employers to send employees to training.

Problems identified in regard to workforce education:

- Universities and vo-techs lack the resources to stay current on business issues.
 - Educated youth are leaving the state in search of better paying, more challenging jobs. Therefore, we are not generating a return on our education investment.
 - There is a lack of employees trained to functions specific to value-added processing. There is a lack of qualified individuals to support efficient processing facilities.
 - Vo-techs are not focused on addressing specific training needs of industry.
 - There is a lack of food technicians, lab workers, and other certified technicians.

Few programs are offered to train entrepreneurs.

- Knowledge and education of most value-added food processors is in commodities. There are not many resources available to entrepreneurs that address educating business owners on managing a manufacturing business.

We cannot grow the value-added sector of the state or the economy of Montana without qualified workers.

- If the labor pool and training programs are not available, tax incentives won't attract additional processors and manufacturers.
- Solutions to address students leaving Montana through tax incentives to employers don't address the heart of the issue. Incentives don't make a bad deal (hiring unqualified labor) into a good deal.

Work-comp, benefits, and other various costs are so high that once a good worker is found; it is hard to afford to keep them.

Low wage levels make it hard to recruit qualified individuals.

PROPOSED SOLUTIONS TO WORKFORCE INVESTMENT

Share resources or find expertise as a group instead of individually. Also, find a way to tap downstream expertise. There are many experts in Montana, but their skills and experience are not leveraged.

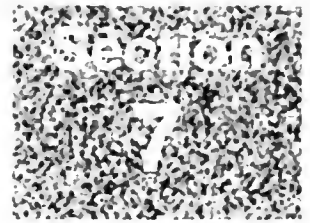
Through a value-added manufacturers association:

- Establish a clearinghouse for workforce training and development.
- Work with industry to articulate training needs. Then partner with vo-techs and universities to offer training to potential and existing employees.
- Partner manufactures for safety training courses required for worker's compensation to lower costs for the group members.

Simplify the worker certification process at the state level.

Improve the information exchange and process for labor needs from producers. Again, this could be accomplished through an association. Currently, depending on the specific business, worker's need to be certified in HACCP, proper food handling, etc. Can county sanitarians, or the association, be a clearinghouse so processors can easily train their workers?

Utilize the association as a clearinghouse to improve access to information on employment rules and regulation, training requirements, and what a company needs to do to meet the needs.



Research and Development

The Role of Research and Development in Value-Added Processing

Research and development plays an important role in enhancing value-added processing. Through quality research and development, state agencies and private industry can develop a common goal or vision for enhancing the value of the sector.

Additionally, relevant information available to processors can reduce costs of research and development in starting and growing Montana food processing businesses.

In identifying constraints and objectives for change related to research and development, the following issues were addressed:

General Comments

CONSTRAINTS IDENTIFIED AS RELATED TO RESEARCH & DEVELOPMENT IN GENERAL

There are not enough state funds dedicated to research and development.

Growth of strong businesses is dependant on quality research and development. However, the state does not provide any tax incentive for firms which develop business plans including research and development.

Much of the research generated by the university system is benefiting businesses outside of Montana.

To justify paying for research and development through the university system, we must be able to demonstrate quality products that result from research, a benefit to Montana, processing businesses that result from the intellectual property of our Montana research. We currently do not demonstrate a return on investment for research and development and, therefore, struggle to gain support and acceptance for further research and development efforts.

There is no common vision or purpose to research and development efforts. The lack of focus stems from a lack of research as to which efforts provide the best returns to the state.

PROPOSED SOLUTIONS FOR GENERAL RESEARCH & DEVELOPMENT CONCERNS

The Department of Agriculture and the Department of Commerce should form a focus group charged with the responsibility of determining a common interest and vision in developing products for Montana. Focus group should include the Department of Agriculture, producers, consumers, various other state agencies – including the university system, and non-profit organization and association representatives.

The focus group should also address areas for collaboration and cooperation in the public & private sectors.

Focus group should examine opportunities for partnerships from field to plate that relate to the common vision. Research efforts can then be coordinated to enhance the economy through specific product development efforts.

When projects are identified and researched, avenues for producer investment can be explored (LLC, cooperative, etc.).

Food Science & Product Development

CONSTRAINTS IDENTIFIED AS RELATED TO FOOD SCIENCE & PRODUCT DEVELOPMENT

There is a lack of product development assistance - specifically in the area of food science at the university level.

- In general, there is a lack of technology transfer between the university system and businesses/producers.
- The university research is geared toward commodities rather than toward food science.
- Lack of food science expertise at the university level (chemical analysis for labeling, etc.)
- Lack of food science department at MSU/education/research development.
- Montana does not have a university housed Food Center like those found in other states.

There is a lack of infrastructure to support product testing and development

There is a lack of technical support in Montana. More specifically, there is no one-stop shop that provides services from testing to knowing product regulations.

Statewide, there is a shortage of:

- Qualified food technicians

- Full-service labs. Products must be certified to meet requirements, such as protein contents, moisture levels, fat content, residue free certification, etc.
- Research and development facilities– certified kitchens/facilities to do testing
- Information on available testing facilities
- Pilot facilities

Because of a lack of common vision as to what products are needed by consumers and are viably produced in Montana, product development efforts are duplicated and sporadic. We could better utilize development dollars if we could determine which products would provide the best economic return to the state.

PROPOSED SOLUTIONS FOR FOOD SCIENCE & PRODUCT DEVELOPMENT

Support the development of an institute or research center for value-added processing

Institute development should be lead by Montana State University in conjunction with other universities and state agencies. However, the development of this center must be industry-driven. Producers and processors must be involved to generate buy-in and support.

Financial support for the facility should be state funded with industry match.

Provide industry the opportunity to take an equity position in the facility. This forces industry to take an active role in determining the objectives of the center.

Capture the profits of the center for reinvestment in industry research and development.

Biotechnology

CONSTRAINTS IDENTIFIED AS RELATED TO BIOTECHNOLOGY

The vision and definition of "Value-Added" processing is too narrow if it is limited to food. Biotechnology research provides avenues for adding value to agriculture beyond food products. Examples include cosmetics, chemicals, cleaning products and other alternatives to food.

Biotechnology research is being done, but it is not being transferred into production.

While research is being done, steps are not being taken to educate consumers about the benefits of biotechnology products. Without education, biotech products will not gain consumer acceptance and support. There is a fear of biotechnology that must be overcome before products can be transferred into production.

There is no institute for bio-based products.

PROPOSED INITIATIVES FOR DEVELOPING BIOTECHNOLOGY

Biotechnology provides Montana an opportunity to develop innovative products that provide a competitive advantage. This advantage could be utilized to revitalize agriculture in Montana.

Include a biotechnology component of the proposed research facility, which can address adding value to agriculture through new technologies.

In conjunction with developing biotechnology, we need to initiate an education of the public about biotechnology products. This education should aim to provide information on the consumer benefits of biotech products, the benefits to agricultural producers, and the results of research. Education addresses consumer fears/concerns about biotechnology. It should not try to "sell" the products, but should try to provide the facts about the potential for economic development in conjunction with safe products.

Identity Preservation & Quality Assurance

In conjunction with food science and biotechnology research, the proposed food center should also include a mechanism for identity preservation and quality assurance. As identity preservation and quality assurance also become functions of marketing, more information on the topics can be found under the marketing report.

CONSTRAINTS IDENTIFIED IN RELATIONSHIP TO IDENTITY PRESERVATION AND QUALITY ASSURANCE

Processors in Montana lack a common vision.

Products currently have no common measure of quality. There is no consistency in the quality of the products delivered to the customer.

Product quality standards do not exist in an enforceable form. We cannot promote "Quality Products from Montana" unless all companies are representing specific quality standards.

Currently, there is not a mechanism in place to conduct identity preservation analysis on crops and livestock that are processed into value-added products. We cannot prove the value of research and development on new products or improvements to existing products unless we can track the success/failure of a project from farm to plate.

PROPOSED SOLUTIONS TO IDENTITY PRESERVATION AND QUALITY ASSURANCE

Focus group will work to visualize success in terms of identity preserved products developed under strict quality assurance standards and define what is needed to achieve that success.

Generate an industry-driven set of product quality standards, which create demand for Montana products to the extent that it encourages construction of processing facilities within the state.

Develop a feedback structure to evaluate the raw materials of viable products and then tracks the product to monitor the financial impact of producing products that the consumer demands.

Determine standards for quality production and leverage the food center to create more consistent products.

Economic Analysis

CONSTRAINTS IDENTIFIED IN REGARD TO ECONOMIC ANALYSIS

Analysis is needed by sector on how far businesses should take vertical integration. Does value-added mean selling food ingredients or retail products? At what point in the vertical integration chain do we start to LOSE value? In examining the optimum level of vertical integration, analysis is required on:

What are the gross margins at the various stages of the value chain?

What is the pay-off at each level?

What is the return on gross investment at each stage?

Businesses struggle to gather economic analysis numbers for use in business plans and proposals for funding. Economic analysis is available for various commodities, but does not seem to be complete for agri-manufacturers.

There is inadequate assistance available for studying markets, developing appropriate business models, and conducting in-depth analysis of proposed projects. Because of the cost associated with quality research, many businesses either launch a business without understanding the market they intend to enter or run out of financial resources prior to completing the research.

Analysis on the benefits of value-added processing on the economy does not exist in a tangible form.

Analysis on the economic benefits derived from researching value-added products does not exist in a tangible form.

PROPOSED SOLUTIONS TO ECONOMIC ANALYSIS

The focus group appointed to make recommendations on food science should help to develop a conduit for industry to indicate the types of research needed to develop value-added processing.

Once needs have been assessed, the food research/biotechnology center needs to track the economic strength maintained or gained due to the profitable commercialization of agricultural products.

The food research/biotechnology center needs to track the "spin off" economic effects of successful products (impact on communities where products are grown and processed as well as impact on the state.)

The food research/biotechnology center needs to develop a collection of data structures that collectively combine data to make it more viable for economic analysis.

We also need to continue to track the economic benefits to the US market in the global economy due to increase yields, better food quality, etc., that result from research and new product development.

Market Research

CONSTRAINTS IDENTIFIED AS RELATED TO MARKET RESEARCH

Information is not readily available to make rational decisions regarding consumer trends, demographics, and market trends.

There is a lack of funding for market research. The Growth Through Agriculture Program is one of the only options for conducting market research, but \$50,000 is not enough to do thorough research.

Aside from consumer trends beyond the state, there is a lack of consumer research on Montana customers.

Research is either lacking or is not available in an easily accessible location food processors are not able to find it.

Market research does not correlate to food science research. There does not seem to be a connection between identifying what customers want and then developing products to meet those needs.

PROPOSED SOLUTIONS TO MARKET RESEARCH

Create a new paradigm of processing products to meet consumer needs.

The food processing/biotechnology center needs to conduct research on the consumer demand and market trends. Within that context, analysis needs to be conducted on the demand for branded products with identity preservation and specific quality standards. Are consumers willing to pay a premium for identity preserved and quality certification?

Based on quality market research and research generated from economic analysis, the state can establish or encourage facilities that require raw materials from Montana and meet an identified demand in the market.

Overall Summary

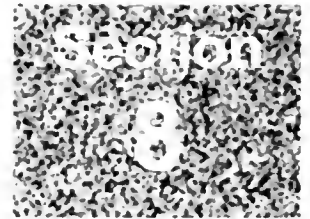
At the heart of generating research and development efforts described above is dedicating university resources to value-added processing of agricultural products. The steps to not only dedicating resources, but also to developing appropriate research and development work are as follows:

1. Create a focus group as described in the Food Science and Product Development section. The focus group should make recommendations concerning research and development for food and bio-based products. This focus group should be led by agriculture in conjunction with the university system, federal and other state agencies, non-profit organizations, consumers, and industry leaders. Group size should be kept small for maximum effectiveness.
2. Develop a food/biotechnology center out of partnerships between the university system, industry leaders, non-profit organizations, and federal agencies. This center

will not only assist companies with specific product research and development, but will also conduct the research described above.

3. Develop a separate center that is funded by private industry dollars which focuses on identity preserved products, private labeling, and other for-profit product development functions.
4. Incorporate standard for reporting results and proving information to the industry as a function of business start-up.

Marketing



Marketing Assistance

CONSTRAINTS IDENTIFIED IN REGARD TO MARKETING ASSISTANCE

There is a lack of marketing expertise and market knowledge in the private & public sector in national, regional, and international markets.

There is assistance for developing marketing plans, but they are largely private sector forms of assistance and are very expensive.

Knowledge about markets and the resources required to succeed in those markets need to be learned by both industry leaders and resource providers.

We lack consolidated sources of information on marketing, distribution networks, and resources available to us.

In small businesses, marketing is just another function that the owner/operator is asked to perform. Most owner/operators are good at making products, but don't have the time, desire, or staff to become experts in marketing.

Marketing assistance is not evenly distributed statewide.

Is there a place in government to get resources you need for developing a marketing strategy, help with a business plan, and marketing your product? Not everyone knows what resources there are.

PROPOSED SOLUTIONS TO MARKET ASSISTANCE CONSTRAINTS

Form a Montana Food Processor's Association as a forum for sharing different marketing options. Possibly contract a Food Processing Association broker to help sell Montana products.

Increase the availability of affordable marketing assistance for producers.

Provide a state-funded resource at MSU that does research on getting particular products to market and then be available to assist companies in learning how to get the product to market.

Increase the number of available funds for market research and implementation of marketing plans.

Promote and share with the public the success (failure) stories of companies that have received funding from grants/loans through state agencies. Create a clearinghouse of proposed marketing plans for companies to review what has been tried, what worked, what didn't work, and why.

Create an international marketing agency that researches where to position Montana products in global markets.

Establish a taskforce to create a Montana Food Marketing Association. The taskforce should examine funding for start-up, where it is housed (public vs. private sector), the by-laws, recruiting the board of directors, objectives, and continued support for the association.

Incorporate a marketing and training component to the government resources and the association to help processors access information. Further, make seminars a forum to assist businesses with the development of marketing plans.

Marketing the Montana Image

CONSTRAINTS IDENTIFIED IN REGARD TO MARKETING THE MONTANA IMAGE

No clear understanding of what the Montana mystique can bear. Everyone tries to sell the Montana image, but no one really understands what that image is and how it should be marketed. Does the image of Montana carry a premium or is it just a nice picture on a label?

There is a lack of common vision in marketing Montana. If we determine that Montana does command a premium, industry must work collectively to perpetuate that image.

We need good solid market research. We do not understand who or what the target market for Montana products might be. We don't understand what others appreciate about Montana, and we don't know how to use what others appreciate about Montana in our marketing programs.

The "heritage" is a problem in Montana. For example, the imagery of the cowboy and the plains, sheep ranger- we want to keep that imagery. Can we continue to do that in the same manner? It is felt that there has been resource robbing from outside companies.

Current concerns with the Made in Montana/Grown in Montana program include:

- There are no quality standards backing the labels.
- The program does not provide for a unique product value.
- Eligibility standards are unclear.
- There is no enforcement of the program being done.
- The marketing efforts of the program are ineffective.
- There is no program outreach.

A concern about researching the market for Montana programs and then developing an aggressive strategy is that budgets would not allow state agencies to keep the program going.

PROPOSED SOLUTIONS TO MARKETING THE MONTANA IMAGE CONSTRAINTS

Position the Image of Montana – hire a marketing firm to define and then develop a marketing campaign that sells the Montana image.

Utilize the best practices of other states to develop a marketing effort. Vermont was cited as a strong example of a quality program.

Develop a Montana Image Advisory Council or association, which coordinates a comprehensive strategy and marketing plan to market the image of the state. The image developed should include the following components:

- Montana pride in quality is stated clearly to purchasers.
- Cooperative advertising efforts.
- Links to the research and marketing efforts of Travel Montana.
- Strict standards for participation.
- Enforcement of program criteria – give the program teeth.
- Montana Mall on the web that promotes products.
- Looks like a company, market like a company, generate sales like a company.
- Common logo or design that creates a unified look for Montana products.

The Marketing Montana program should work in conjunction with an association of food processors to ensure links to appropriate connections, education of consumers and producers, a continuation of a “common” vision, and for additional leverage of the label.

Market Demand

CONSTRAINTS IDENTIFIED IN REGARD TO MARKET DEMAND

There is a lack of local support and awareness for both finished products and edible by-products.

As an industry, we have not identified what the market demand is for Montana products and therefore, cannot effectively service that demand.

When seeking to develop new products, we need to examine not what we are capable of producing, but what consumers want and how we can service that demand.

We need to understand the marketplace. Where are the niche markets and what are the barriers to entry in those markets? What are the marketing opportunities outside of the state?

We not only need to understand today's customers, but we need to prepare products to service future consumers.

What prevents Montanans from buying Montana? What is the size of the Montana market? What do they want? What can we offer them?

Do consumers value having the source of the product verified? Are they willing to pay a premium for the perception of a product that is sold "From my family to yours?"

PROPOSED SOLUTIONS TO MARKET DEMAND CONSTRAINTS

Utilize the association to do cooperative market research.

Develop a clearinghouse of trade leads. Utilize the Internet to relay information about demand for products.

Train producers to find and research their target markets.

Once a target market has been identified for a given product, develop state and private resources to assist with accessing the market.

Producer Marketing Problems

CONSTRAINTS IDENTIFIED IN REGARD TO MARKETING PROBLEMS

Doing effective marketing and promotion is very expensive for a small business. We cannot price the products to cover everything.

We currently cannot do identity preservation of the raw materials of our products.

Operating costs for small volumes are such that capturing the market value of our products does not necessarily capture the costs of adding value to the product.

Businesses lack good solid business and marketing plans.

We need help to develop our profit margin. We cannot ask consumers to pay unreasonable prices for Montana products, but we also need to make a profit.

The costs of conducting market research are so high that they require a full year's marketing budget just to get the research completed.

Developing effective e-commerce sites is cost prohibitive for small businesses.

We are busy making products. We do not have time to research our own markets, identify the market entry costs, and understand our customers.

There is a lack of dedicated, motivated brokerage firms and sales representatives willing to actively market Montana products in appropriate markets.

We do not have the economies of scale of the larger, more experienced companies. Further, as entrepreneurs, we are on a steep learning curve and are trying to compete in a market of sophisticated producers.

The time and cost to support a well-developed brand name is prohibitive.

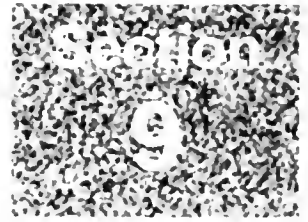
PROPOSED SOLUTIONS TO MARKETING PROBLEM CONSTRAINTS

Develop an association that will provide a forum for cooperative marketing efforts between processors.

Ask the association to examine the costs and benefits of establishing a "Montana" brand and having companies provide goods under a "private label" relationship.

Ask the association to fund seminars from Nebraska, Iowa, and other states that have effective programs in place. These seminars will help to educate processors on available options and on issues such as lean production models, price structure, etc.

Work collectively to participate in trade shows. Ask the association to identify appropriate shows, and then have the state work to recruit buyers to attend the shows.



Implementation Plan

Ralph Peck, the Director of the Montana Department of Agriculture, and Governor Judy Martz reviewed the constraints and solutions provided by participants of the Governor's Conference on Value-Added Food Processing. As a result, they determined that the following course of action could best provide timely response to the identified issues.

Montana Food Processing and Value-Added Agriculture Advisory Council

Governor Martz has asked the Director of Agriculture, Ralph Peck, to appoint a Montana Food Processing and Value-Added Advisory Council. The overall objective is to enable involvement and direction from you as businesses and agricultural representatives in Montana. The Advisory Council is charged with the following:

1. Develop a collaborative strategy on the part of Montana food processing and value-added companies, which may take the form of a cooperative or an association. The strategy will address formation issues, purpose of the association, and duties of the proposed entity. This will help Montana companies to leverage their collective strengths.
2. Make recommendations for the development of a collective vision for marketing the Montana image. This will help Montana companies to portray a consistent and meaningful image, making the most of the positive aspects of Montana's "mystique."
3. Explore what it means, from a food processing and value-added perspective, for Montana's infrastructure to be "business-friendly." This includes gaining insight on current and proposed administration changes, facilitating an educated effort regarding those changes, and looking for additional business development needs.

